POLICE & FIRE PENSION ADVISORY COMMITTEE

SEPTEMBER 11, 2003

Members present: Greg Sorensen, Jim George, Mark Meyerson, Mark Westphalen, Mike Donnelly, Aaron Drake

Members absent: None

Personnel Dept.
Resource Staff: John Cripe, Paul Lutomski

Others present: George Peterson, Max Callan, Todd Peterson

AARON DRAKE: We're a police and fire pension. It's nice to have us all working toward a better retirement for police and fire, it's very fitting on this date, so thank you for taking time out and coming to this special session. Our agenda is to see your security recommendation slide show. Unless anyone has anything further they'd like to introduce, let's go ahead and start with that and we can talk a bit after that. Sound like a plan?

GEORGE PETERSON: We want to tell you, we appreciate what the Police and Fire do. I just thought about something as you said that. I was on a jury duty about 6 years ago, Judge Urbom, and it was a drug case and as they interviewed us for the jury, I was asked, "Would you believe a policeman more than you would another person?" Without even thinking, I said, "Yes." And boom! Out. I was off. But I didn't have to think about it. I meant it sincerely. I wasn't trying to get kicked off, but it's kind of a shame that they had to ask us that way Just a little review. The last meeting that we held, the asset allocation past on the structure of the portfolio. I'm going to stay away from the minimum-maximums and just go to what the approved allocations were. Bonds, domestic 22% that includes 2% in convertibles, foreign bonds 5%, and TIPS which are inflation protected securities 4.8%, for a total of 32.8%. Then also hedge funds, alternative investments of 3%, real estate 14.7%, and then equities 49.5% and that includes 5% in foreign. And I'll just let you read those without going through them all. But that's what was approved last time, and secondly it was also agreed that the allocation of individual investments will be formally reviewed semi-annually in January and June, and the portfolio would be re-balanced annually in June. Re-balanced meaning if we're trying to be about 14.5% in real estate as securities go one way or the other, that we would try and get it back close to that allocation. And any time during this, if you have a question or anything, just please speak up. The committee requested that Smith Hayes recommend specific investments for foreign bonds, tips, convertibles, real estate, domestic equities and foreign equities. We took two approaches to this. For some of the investments, foreign bonds, tips, convertibles, securities and real estate, we had worked with Paul previously, we had done quite a bit of research, and on those in our opinion you did a little different research than we did on the domestic side. For example - in some cases there was a limited number of vendors to work with, under real estate you had distinctive expenses and you have different kinds of investments and it takes a little bit of a different due diligence to try and figure out which ones you may want to use and not use. TIPS is relatively new and there are few funds out there and convertibles are hybrid securities. I'll just say right now a convertible is, again to review. A convertible is either a bond or preferred stock that has some kind of a coupon rate and is paying interest, but it's convertible into that company's stock at some ratio. For example, this isn't a real example, but you could have an IBM convertible bond that's paying 4% and it's convertible to their stock at x 4 shares at x. So what happens in a convertible security, as the underlying stocks go up , the convertible will start chasing that, because I can convert it at anytime so obviously if I can buy 4 shares and IBM goes up, then the price of the convertible will go up. When we have a situation where a stock price declines, I have a floor built in because at some point in time l'm getting a 4% interest and if the stock goes even below that, I'll start looking at it more like a bond or a preferred stock. So they're kind of a specialized animal. Does that make sense to everyone?

MARK MEYERSON: Have they had those for a long time?

GEORGE PETERSON: Pardon?

MARK MEYERSON: Have they always had those?

GEORGE PETERSON: I don't know exactly but know for the last 20 years and there are a few people that are just kind of specialized in that area and John Callamos is one of those who has written books on the subject and so on, and Callimose is the one that we're recommending. He's done an excellent job in them. But it's just kind of a special breed.

MARK MEYERSON: How about the tips? What's that stand for?

GEORGE PETERSON: Treasury Inflation Protected Securities. They move from inflation every year. I think 1997 is when they came out. For the domestic and foreign equities funds, we did quite a bit more research, a different type of research, and here we were trying to select mutual funds to maximize your returns and minimize your relative risk and try and control the plan expenses, provide reasonable diversification and then also to incorporate proven managers. In a little while after I go through these first four or five investments, Max and Todd are going to tell how they did the research on the equities. Let's just look at foreign bonds. The approved allocation is 5%. That's approximate amount based on 138 million that Paul furnished me recently, which was your August 31 balance. Currently you have zero in there, so we'd be looking to invest about 6.93 million. Our recommendation is the PIMCO Foreign Bond Fund. This fund uses high quality intermediate term non-U.S. bonds. It's got about 1.5 billion dollars in it, pays a monthly dividend. It hedges about 75% of foreign currency exposure. They want to try and take foreign currency out of the equation. The 12-month yield is 3.61%. The average maturity of the securities they have, which is a weighted average of all affected maturities in the portfolio, is 9.8 years. The average duration, and that's a time measure of bonds interest rate sensitivity, so you'd like to have a relatively low average duration. The average coupon rate in the portfolio is 4.74% and the average credit rating is triple A, and triple A is the best rating you can get. So it's a high quality fund. The expense ratio, the category average and what we did on category average is go in and look at all foreign bond funds under Morning Star and did an average of what their expense ratios are, and that comes out to 1%. Here you'd be able to use their institutional fund, because you would have more than 5 million. We'd be able to use their institutional funds, which is their lowest fee. Fifty basis points. Year to date this year, 2.28% total return, 12 months, 6.14%. We're going to have a chart like this on all of them. I don't want to bore you by reading each one, so I'll kind of go through the first one and then from then on I'll let you do it, and if you have a question, you can stop me. Year 2002, we've thrown in here just to kind of see how it did. That's 7.67% that year. These are the compound average returns, so if you had put money in there 3 years ago your compound average would have been 8.01% over 3, here's 5 and 10 years. The Morning Star rating, they rate all similar funds and this 32 means a third in the upper 32% of all the funds. Upper 32%. It doesn't mean that there's a number 32, they're in the top. They're the 32 percentile of foreign bonds. And for 3 years, there's been a hundred and eleven funds, similar funds, and they're in the upper 32 percentile. For 5 years, there have been 99 in existence for 5 years, then they're upper 17 percentile. And for 10 years, there's only been 36 funds, they're in the 1 percentile. We tend to look a little further out and just see how consistent they've been over time.

JIM GEORGE: How long have they been in existence?

GEORGE PETERSON: Todd, that would be in my notebook there. It's the conception date.

TODD PETERSON: 1992.

GEORGE PETERSON: '92. Thank you.

GEORGE PETERSON: Are there any, any questions on that?

MICHAEL DONNELLY: George I assume you screened other funds besides this one, and compared them side by side.

GEORGE PETERSON: We did, and there were some Mike, that rated higher. There were 2 that rated better. But their standard deviation in our opinion, were way off the map. They were very, very volatile, and we just didn't think that we wanted that kind of volatility. They weren't triple A type bonds and that's what caused the volatility. We thought that this was the best fund for what you're trying to accomplish.

MICHAEL DONNELLY: I was just going to make an early recommendation to the committee that we at least have in our files your fund analysis where you did compare it to the other funds, so that we've done our due diligence.

GEORGE PETERSON: Yes. We don't have it all done, but we're going to have a notebook on all the screening and all the funds we looked at and why we discarded them or why we picked one. In this case, it was definitely the volatility of the data.

GREG SORENSEN: Now, is that 3 year average, is it a percent for a year for a three year average?

GEORGE PETERSON: On a compound basis. If you went back 3 years, put in a dollar, the first year it would make 8.1%, that would make 8.1% the next year and that would make 8.1% the next year, so it's an average compound return.

PAUL LUTOMSKI: But in reality it might have been 4% one year, 12% the next year. It's not steady.

GREG SORENSEN: It's just an average for the 3 years but at least 8% a year.

PAUL LUTOMSKI: Right.   And this one probably has less volatility because of the hedging of foreign currency.

GEORGE PETERSON: The hedging and the triple A.

PAUL LUTOMSKI: Okay.

GEORGE PETERSON: Real estate, the approved allocation is 14.7%, about $20 million. Your balance right now with J.P. Morgan is about $10 million (which follows the NCRIEF index) so we have about that much more to invest. With this one, John had gone to a conference once and came back with CNL and Paul found a list of 6 funds that most other defined benefits were using. We screened all of those with Paul and came up with RREEF America 2. We're suggesting about 4 million in there. This is core co-mingled open-ended fund. Open-ended means that if you are going to put money in here, you'd make a pledge and they will call as they need it to make investments. You don't just put it in there and they put it in a money market, and it'll be about 6 months before it is to be invested. 20% of real estate or about 4 million. This fund has about a 1.3 billion in it. They own, at the time we did the study, 54 properties, kind of diversified, 24% apartments, 45% industrial, 8% retail, 23% office, they do not go into hotels or retirement type homes. They're in major U.S. metropolitan areas. Their fees are tied to performance, which is standard. I won't go into that formula, but that's the way they get paid. It does not follow NCREIF, which is a real estate index. The index is not representative of all real estate, but it's what is used in the industry. This fund does not follow that. They do what they see as best. We thought that was kind of a good mixture, one that follows the index and one that does not. Most of these can go up to about 30% in debt. They have to have that ability, if they see a good deal, they'll buy it, and then they'll make calls and bring the money in, so that's so they can borrow money. The current yield on it is 7.38%.

AARON DRAKE: Did you say it was 9.6 million for real estate?

GEORGE PETERSON: No. Thats new money that needs to go in. JP Morgan has done well, hasn't it, Paul?

PAUL LUTOMSKI: Yes, it has.

GEORGE PETERSON: Because you put 10 in?

PAUL LUTOMSKI: Right.

GEORGE PETERSON: The other two are by CNL, in Orlando, Florida. They specialize in a couple of areas. One of those is hospitality properties. We're suggesting 15% in there, about 3 million. This is a private REIT, or real estate investment trust. This has a given share price. So they take money in continually, and they will build up a cash reserve and they're always looking for new properties. Properties are nationally recognized hotel brands, Marriott, and all the other ones under Marriott, Hilton, Hyatt, Double Tree, Windom, Embassy Suites, et cetera. They don't own hotels and motels, because their rent is only one day or two days at a time. Well, these people are leasing to the hotel companies, so they want the occupancy to be good, so that they can get paid obviously, but they're not getting paid based on occupancy. They're doing long term leases from 15 to 20 years. That means that the lessee pays all taxes, all utilities, and all maintenance. So they own the real estate, but whoever they're leasing it to pays all that is owed. They don't want to be in the business of managing or running those buildings. This one must go public by 12/31/07, which means it would convert to a stock REIT. The institutional price on this is $9.30. For retail people, they pay $10 and you pay $9.30. We have a deal right now for you. In talking to them, they had one client that was pretty big, a venture capitalist, that had about 17 million dollars of this they want to sell, to raise capital for another deal. Investors can normally put (sell) this stock back to CNL at $9.20 a share, but that's not an automatic, but CNL will buy it as they are able to, so you have some liquidity in this. But we right now could buy the 17 million that is being offered in large blocks. An awful lot of CNL's business is ma and pa putting in $10,000, and so that they don't want that 17 million put back to them, because it will take a long time to pay it off, so this company is willing to sell at $9 share, are there's about $7 million left, and we just put our name in to say we would like to get three of that potentially. If we can buy it at 9, we could put it back at 9.20. But on the $9 price, the yield right now is 8.61%. They've been very consistent over the last several quarters with paying that rate. Any questions or comments?

MARK WESTPHALEN: Does potentially owning the stock out in 2007 cause and investment parameters problem then with this issue that we would own an individual stock that has this potential?

PAUL LUTOMSKI: From what I understand when CNL converts from a private REIT to a public stock, we can turn around and then sell the stock, and invest our money in a new private REIT.

GEORGE PETERSON: They've done several of them. NNN that's a stock that's out there right now, sells about $18. That was one they had done. Their guess would be that this would sell higher than the $10 share price because underlying properties would be more worth lot more at that time, and so your decision at that time, Mark, may be to hold the stock. They're still in real estate. Make that decision at that time.

MARK WESTPHALEN: It might be a change our investment policy statement? If that, that requires a change?

PAUL LUTOMSKI: Well, it would still be real estate. I mean, it would be a stock, but still in the real estate category. Yes, we don't want to own public REITs, because when it gets out there in the public, we're opening up ourselves to more market risk.

GEORGE PETERSON: The other one is CNL retirement home properties and, again, we're suggesting about 15% or 3 million. Again, this is a private REIT, very much like the hospitality one. Right now they've got about 940 million dollars, 55 properties. Properties here include assisted living, skilled nursing, medical office buildings and so on. With almost all of the emphasis in the assisted living area and the skilled nursing. Again, these are net, net, net. They're not running these properties, they're leasing them and the lessee pays all utilities, taxes and maintenance. This one must go public by 12/31/08. The institutional price here is $9.30 share, and there's no specials running. That was a special deal before. Based on that, this one has a little lower yield right now at 7.6%, but it's not as mature as the other one, so this should keep moving up. These properties are very well dispensed throughout the country. So we think both of these are good. Kind of one reason we looked at these and brought them in here is with the J.P. Morgan and these you would wind up as far as different types of investments. Industrial 15%, apartments

13%, retail 12%, office 25%, hotel da da da. So it gives you a really good diversification in types of properties. Anybody? TIPS again, these are treasury inflation protected securities. Bill Gross, the name mean anything to anyone? That's the guy that heads up PIMCO and kind of is a bond guru of the world supposedly. His newsletter this week just said that everybody's putting their money in TIPS

PAUL LUTOMSKI: Good.

GEORGE PETERSON: Yes. He's pretty strongly in this. I mean, for him that was pretty strong. The approximate amount here is $6.6 million. Currently invested $2.48 million. Here we're suggesting staying with the PIMCO Real Return Fund. The inception date of this one was 1/29/97. One of the first TIPS funds, so tips came out, it must have been in 1996, because this was the first tips fund. Actually the manager of this, a long Scandinavian name I can't pronounce, helped the U.S. Treasury design TIPS, so he obviously understands them. This one has $7.97 billion in it. Year to date 3.11%, over 12 months 6.41%. We sure wouldn't expect these kinds of numbers downstream, but they adjust for inflation, so you kind of have your cake and eat it. You know you get a fixed income that's going to adjust with inflation as you move forward. The expense ratio here, categorically Morning Star throws this in with the intermediate government bonds ... only because there's only a few tips funds . . . and so that's what we did on the expense ratio. The average is about .80. The institutional that you would be in is .47. You can see this isn't fair quite because it's being compared to intermediate government bonds, but it sure says of the two where you want to be. You'd like to be in the TIPS, any comments on that?

GREG SORENSEN: How liquid is this stuff? I mean, can you get the money out quickly?

GEORGE PETERSON: This is really liquid.

PAUL LUTOMSKI: Every day..

GEORGE PETERSON: Yes. In fact, all these mutual funds we talked about are daily liquidity.

PAUL LUTOMSKI: Real estate would not be.

GEORGE PETERSON: Real estate would not be. Right.

GREG SORENSEN: How long is the real estate? .

GEORGE PETERSON: If we do that put, where we say we want to sell it, it's up to them to, when they have cash that they could pay us, and they have cash in a couple of ways. One is rent money coming in, and then new money coming. So it's a little bit at their discretion. But on the amount that we have, it wouldn't be a real tough situation, so I would say a 30 day notification, so 30 to 60 days probably. Real estate is not as liquid.

JOHN CRIPE: It wouldn't bind our operation. You know, at hundred and thirty-eight million, the 20 million in real estate would not bind the rest of what we do.

PAUL LUTOMSKI: And then J.P. Morgan also is quarterly requests for redemption that you have to input like 30 days ahead of time.

JOHN CRIPE: When you all voted to do the J.P. Morgan, we did it every quarter, because they had an annual in and so we put money in every quarter, so now we have the money available to us every quarter if we ask for it.

GEORGE PETERSON: Convertible securities we kind of explained what those are. Here the allocation is 2%. Approximate amount $2.77 million to be invested. Here we are recommending Callamos Growth and Income. Until recently this was called Callamos Convertible Growth and Income, and they do have a Callamos Convertible, but it's been closed, so we can't get in that one. But this one will have at least 80% convertibles, but they've got the ability to also put into equity and fixed income securities, some of the dollars. So, it's not a true, totally convertible, but they normally would be 80% convertibles. I don't think there's a better firm running convertibles than Callamos. They're out of the Chicago area. Year to date this is up 16.42%. 12 months 17.6%. 2002 wasn't so good. That's when it followed the stocks down, and I'm sure it was very high and the stocks went down, and it followed them down. It's been a great fund over time. Comments? Here's it's ranking. The category average is 1.16. They are at 1.30. Here we're going to get into 12b-1 fees. This does have a 12b-1 fee of 0.25 that they pay us. That's included in the 1.30. Here is their ranking. See the 12 months, they're in the top 50 - or in the 55 percentile. But 3-year, 9 and 5-year, 10-year, they're in the top percentile. Any questions on those first 4 or 5?

MICHAEL DONNELLY: Yes. I have a general question. Paul, refresh my memory. Do we have the Calvert income fund? Is that going to remain as part of the administrators' directed?

PAUL LUTOMSKI: Yes. We're keeping the Calvert.

MICHAEL DONNELLY: Okay. So that and the CMO's will be administrator directed.

PAUL LUTOMSKI: The Calvert is our corporate bond fund exposure. So we really don't direct that, but it is included in the administrator directed portion with the CMOs.

MAX CALLAN: I wanted to take a little bit of time just to talk about the screening process we did on the equities, because it's done a little bit different than what had already been done on the real estate, et cetera. We have two sets of software that we use at Smith Hayes. One's called Zephyr, and the other is called Morning Star. And we came at this from two different sides. I did the Zephyr analysis work and Todd did the Morning Star analysis work, and we kind of came together at the end to see what the results of those two different screenings would look like. Zephyr gives us a lot of flexibility to look at risk. Down market performance and this sort of thing. It's a very flexible piece of software. Morning Star is flexible as well, but it takes a snapshot, and it just gives you that picture, where Zephyr is more like a movie screen and we see motion, we see how fund managers have changed over time. On Todd's side, he looked at returns and fees. So what I did was I screened all funds, they had to be open. Then I simply looked at 3-year history. You'll see Todd went a little further out, the funds had to be around 5 years to 10 years. I only looked at only 3 years. They had to be around for at least 3 years. Okay. Then I looked at what's called an information ratio, which is a statistical term. Well, your manager had information, and what does he do with that information? If he created a positive return over a comparable index, well, he did something good with the information, so that created a positive information structure. If he didn't beat that index, well, he didn't do anything with the information. That was a negative. So I wanted managers that produced positive returns over their benchmarks to prove they were adding value. Then I also looked for down market performance, because I want to find managers that when the market is down, they don't go down as much. Okay. Say the market's down 30%, and they're down 25%, that's fine, because they outperformed that down market. So a defensive manager. It doesn't mean they're always positive. It just says they didn't go down as low. And then I ranked those by standard deviation. I think in the previous presentation you had during my vacation, you talked about standard deviation, and so I won't go into that here as much as I'd like. Then there are some subjective things. Now I started looking at, how big is the fund, do they have a limited number of holdings or not, what was the r-squared versus the style. R-squared simply says how close do they come to matching that benchmark that you put up for them. So in other words, if it's a large cap value, I'm going to get as close as we could to what a large cap value manager would look like. There's some that Morning Star will label as large value that may be a little more of a blend in type of funds. They may be smaller in size, mid-cap. Okay, so while it wasn't a direct criteria, we did look at that. Okay. So as an example, large value universe, there were 333 funds that started that screening process, there were 51 funds that ended upon my target list. Okay, and this is what we'll provide, Mike, you know, to you in the process. Okay. So obviously 51 funds. That's pretty big yet. We had to screen it down further. One of those funds on the list, a fund called Primary Income Fund, asset size of only 3.5 million with 39 holdings. Okay? So we did not consider that one. This is some of the sample software and I'm going to show you three or four slides, just to show you some of the things we looked at. Here is this r-squared versus the style, and this is just a sample fund. This green shows a divergence from the benchmark. So I want this green slice to be as small as I can get it. That simply says it's tracking that benchmark closer. So this particular fund wasn't tracking that benchmark as close as I wanted it to. The fund that we're recommending, Washington mutual, tracked that benchmark very closely. Another criteria is what we call the style grip, and so our sample fund here, you can see this is large value, large growth, small value, small growth, and the smaller the dot, the further back in time it goes, and the larger the dot, the more recent it is. So again, unlike morning star which just takes that one snapshot and tells you where it is today, I can look and see, well, this fund, yes, it's generally been a large value fund, but sometimes it's even been down here in the small cap or mid-cap area. Okay, and so I wanted to find one that's more consistently up in our target area, and here's where Washington Mutual has been, so we don't have the drift down in here as much. Yes, it comes over toward the low end a little bit every now and then, but that box is the bull's-eye, type of thing. So again we looked at those types of things. Another thing, this is the excess returns versus that benchmark, or that information ratio process. In other words, this line is what the benchmark did and this is the Russell Top 200 Value. Well, how has this manager done? Well, at one time they were pretty good. But recently, and this is time here, they're consistently underperforming that benchmark. They're not adding any value. Well, the Washington Mutual, they've added a lot of value the last few years. Yes, there's times they're above and there's times they're below, but generally it's been better at hitting that benchmark. Then we go to batting average. It's just like baseball, you know. What percent of the time have you beat the benchmark? In our sample other fund, you know, here's 50% of the time, and generally they've been below it. That's - this is that same slide, their batting average is much better at beating the benchmark. You'll never find a fund that would beat it all of the time. It just doesn't happen. Then this is the manager's universe, this is all large value, managers of morning star threw together. What percentile rank are they in? And these are single computations here, so it's not a - we can do a rolling 3 year time period. But our sample funds consistently, again, there's one of those 51 that met that screen, okay? But again it hasn't performed as well here. Whereas Washington Mutual has been pretty consistent in that effort. So that's just some of this Zephyr software screening techniques that we used, and there's tons and tons of other data. We don't want to bore you with it, but if you'd like to see it, it's certainly available for you to look at. Todd's going to cover what he did on the Morning Star side.

Start here

TODD PETERSON: Right. Thanks, Max. The Morning Star, as Max mentioned, is just a little bit different. It is more of a snapshot. There are ways for us to go back and look at it historically, but it's not that motion picture that Max was talking about. But some of the things that we looked at on morning star, again, we want to make sure it was an open fund, and in the small cap arena you'll find a lot of funds that have closed, and so we wanted to make sure the fund was open. We wanted to make sure that the morning star category and the style box were specific for what we were looking for. If it was a large cap value and it's somewhat similar to what Max was doing, we wanted to make sure that fund was a large value, and it didn't drift into a large cap blend.

So we were trying to be as specific as possible when narrowing the focus down, and then what we do in our screen on morning star is we look for funds that have been consistently in the top of their category. For three years, we wanted to make sure it was in the top 25 percentile of other, say, large cap value funds, or small cap growth, whatever the case was. And we wanted to make sure it was in the top 25 percentile for 5 years. And if it was a large cap fund, we wanted to make sure it was in the top 25 percentile for 10 years. And the reason we put that "and" in the screen is so we don't get a fund that may be has a hot 5 year number, but the 3 year number is not very good, or maybe the 10 year number is great, but the 5 year number is not so good. We want to find consistently strong funds that have been good over time. By putting "and" into the selection screen, it narrows the list down very quickly. Once we narrow that list down, that will typically yield us 3, 6, 9 funds, possibly. Once we do that, I'll just tell you like Max, we kind of eyeball the remaining funds.

GREG SORENSEN: How come you didn't put a narrower percentage on that? How come you don't say like 5% or 10%?

TODD PETERSON: Well, you'll get maybe one fund. It's amazing to find funds that are consistently in the top 25 percent, it really does narrow it down to 3, 6, 9 funds, and that point we can eyeball it. But if you say the top 5 or even the top 10, it'll say we don't have any funds available, so.

TODD PETERSON: At that point, then, we can eyeball it and, as Max said in his portion, it gets to be a little bit more subjective. We'll look at the style adherence and the disbursement and by disbursement we mean, okay, what percentile of the fund is actually in large cap value, or if it's a small cap value, what percentage of that fund is actually in small cap value, what is small cap blend, or even small cap growth, so we try and be very specific and target those. Correlation, if we're looking at a category that maybe we're recommending more than one fund, we want to see what kind of correlation there is between those two funds, and then as a portfolio we want to see how these funds are correlated and if they'll do different things at different times. It would be silly to have all your funds doing the same thing at the same time. Total assets, as Max mentioned, we want to make sure the fund wasn't so small, number of holdings, you put in 4 million dollars and all of a sudden you own most of the portfolio, and you only have 20 holdings. Percentage of the assets in the top ten holdings, we're looking at how much of total dollars are in those top 10, maybe stocks, that they own. How long the manager has been around, and then what kind of security overlap. We want to make sure if we're picking a couple of funds that we're not picking the same funds that have the same holdings. So we'll look at all these and there'll be reasons to kick them out, and again that will be in the notebook that we provide. By sector weightings, okay, maybe a fund is overly weighted in technology, to the point where it's 70% of the portfolio. That would not make sense in our opinion. The search looks something like this. We'll start out and say, "Okay, I want a morning star category of large value with a prospectus objective of, in this case, of large growth, and the equity style box upper left hand corner, we tell you we want large value stocks," and that will trim the list down. You can see on the right hand side what kind of matches we get out of that. The top 25 percentile, as we were talking about, it needs to be in the top 25%, in this case for 3, 5 and 10 years, no deferred load, it had a sales charge if you were to sell it or something like that, we don't want that, and qualified access just means there were no restrictions to get into this account. I hit the search button, we get 15 funds, and you'll see of the 15 funds that there will be some overlap on the ... maybe the same fund with a different share class. But you'll see Washington Mutual and these are listed alphabetically, Dodge & Cox, another one that we're recommending, even bets, and all of a sudden we have these 15 funds, which we print off, and at that point we really scrutinize and do as much due diligence as we can on the fund. If we look at a GMO U.S. sector fund, obviously it must be a good fund, because it had good returns over the years, but some things that might kick it out ... net assets of 42.1 million. Well, if you're putting 10 or 15 million into this fund, you become now the largest shareholder and in our opinion, we didn't think that was right. Something else, this fund, and I found this hard to believe, it only has 5 stocks in the whole portfolio. That to us does not make sense. So, we would kick it out right away. Another fund that may have a style box on the left there, that would say, "Okay, only 38% of this fund is in large cap value." They have some mid-cap. You'll see about 14% in medium sized companies and even 1% in small cap. Well, we want to be more true than that. We want to have as much, or a higher percentage as possible in the large cap value category. PIMCO has a good fund, but you can see over time that their managers have jumped around between large and medium and we're really trying to find that fund that has not had the style drift, so another reason this fund would have been kicked out. What happens next is Max and I and Dad would sit and then we see where we have matches and from that point pick the funds that have the lower volatility with the higher returns, and it really was a good system for us, so with that I think I'll turn it back to Dad.

GEORGE PETERSON: Okay. This is as percentage of the total assets in the fund. Large value 12.5%. Large growth 3%. Mid-cap 3%. Small cap value is where we have the biggest percentage, and then foreign 5%, so this comes up to 49.5% of the assets in the funds. Large value to start with. 12.5%. That's about $17.34 million. Current investments you have about $3.27 million. So we're going to be adding. When we came down to 2 funds that we liked for this, and these are the style boxes that Todd was talking about. You can see Washington Mutual has 59% of their assets in what they call large value, 16% in blend, and we kind of look at blend as neither fish nor fowl, so if we split that, that would be about 8% more over in the value, 13% of their value is in growth right now, then they have some in mid-cap. Dodge and Cox, you can see not quite as true to large value, 25% in the blend. They have more in the mid-cap. We turned some knobs here, and did some things and we just came up with a 60/40 split, and you can do this a lot of different ways, but here we thought we were coming up with about as well as we're going to do in getting towards this large value. With the combination of this would be 52.19 and 13.5.

JOHN CRIPE: And to restate this, George, that both of these 2 companies appeared on both of the 2 different lists.

GEORGE PETERSON: Yes, in all cases here, when we have a recommendation they appeared on both lists. Good, John. The American Funds Washington Mutual is about a 47 billion dollar fund. Originally the reason it has that name, it was patterned after District of Columbia, if you had a trust in the District of Columbia, they told you how you could invest. Dividends nine out of the last ten years, and other criteria. But here are their returns. All the return data as of 8/31. We didn't get this until yesterday, so this is fresh off the press. But you can see their return data. Expense ratio category average is about 1.08. Theirs is point six seven. That does include a point two-five 12b-1c. Here's their rankings. You're in this fund now.

JOHN CRIPE: Right.

GEORGE PETERSON: Dodge and Cox, there's about a 14 billion fund. Again, you can look at the numbers up there, their averages, expense ratio, again that 1.08, .54, no 12b-1, and here you can see the ratings. Excuse me, I don't want to go too fast here, so if any questions, please holler.

GREG SORENSEN: So are we supposed to pick one of those last 2 funds? Or we've already invested in those?

GEORGE PETERSON: You've invested in Washington Mutual. You have no money in Dodge and Cox.

JOHN CRIPE: You're actually looking at the entire package at this stage. All the investments they're presenting.

GEORGE PETERSON: We'd ask you to take money out of Washington Mutual right now. Large growth, 3%. Approximate amount of $4.16 million. Current investment, $3.43 million. We're recommending more American Funds Growth Fund of America. You can see they're fairly true to the large growth. Some gets over to the value side, about 17% would be considered mid-cap sized stock. Here are their returns year-to-date of 21.77%. These last 3 funds we've talked about all have 15 year history, so we've added that. A lot of them, when we get to the small, I don't think any of them, only one of them has like 10 year, most of them are 5 year. Expense ratio here of .78 versus 1.23 for the category average. That does include a 12b-1. Here you can see their arrangements. Mid-cap value, 3%. $4.16 million. You don't have anything in mid-cap value now. Here Hotchkiss, Wiley, Mid-value One is the fund we're recommending, but again when we got into the mid and small, you're going to see more divergence in their style boxes, and I had a good conversation with one of the managers this morning and they buy a stock that at the time is mid-value and it can shift, all of a sudden it does very well, and because of the price of the stock and so on it turns into be a large value. Et cetera. So we're just going to have to kind of live with this, but this is an excellent fund. Here you can see year-to-date is up to 32%. Five year average is 21.8%. Their expense ratio 1.15 versus 1.27. The other thing is you go to a mid-cap and small cap you're going to see their expenses are higher. A lot of that has to do with their owning not as much of stock, so their cost might miss, but their research is typically a little more expensive. So they're going to typically run a little higher. There's their ranking.

MAX CALLAN: One thing, too. You see the rankings. There's some of the large cap funds that 10 year and 15 year track records. What happens on your small and your mid-caps, if they grow too big, they close the fund, because they just can't find the securities. And so a lot of times in the screening process maybe you could find it out there, but it's closed so we can't get to it.

GREG SORENSEN: What determines whether it's large, mid, or small cap size? Just the value of the fund itself?

MAX CALLAN: The size of the stock that they're buying. In other words, capitalization. IBM is a large cap. NBC before it became Wells Fargo was probably considered a small cap stock.

GEORGE PETERSON: I think typically a small cap is up to a $3 billion dollar company, if you took the stock, playing with the stocks price, and then I think Mid goes from like 3 to 10 or 12. So these aren't Ma and Pa grocery stores. I mean they're still pretty good sized companies, ... Okay, you want to go to the next one? Mid-cap growth, 3%, $4.16 million. This one is the Smith Hayes Cap 20 Partnership. It's a limited partnership that started a little over a year ago. They (John and Paul) presented it and put money in 3 times, at a million dollars apiece. It invests in the S&P Neural Twenty, which is a process that S&P has. They look at 5,000 stocks in the Russell 5000, and they bring them down and they rate them ... by numbers and the four A plus would be the top. I won't go into what those are. So they will look at all this, all these stocks and they will make weekly recommendations. Once a week, if they're going to make a change, they'll recommend making a change. Never more than 20 stocks. If they make a change to buy one, they also make a recommendation to sell one. It's pretty automatic. It's not managed as such. But we've done a lot of background research on this system and since inception July 1st last year, it's up 9.30%. We got started at a very bad time and it went down, but now it's back up. Year-to-date it's up 27.82%. I wish I could take credit for that, but the way you put the money in you hit a home run almost right now, because you're, on an annualized basis, you're up 51.13%. There's only 9.8 million in it. This is a little different animal than if we were going to go out to a mutual fund that had 9 million in it, and you were going to put 3 million in, because this one, we think we can handle 50 million in this, because it's an automatic type situation. If we get another million in, it goes into those 20 stocks, so it's a different animal. Expense ratio is 1.65, which covers a little more expenses to run this, because of accounting, legal and so on, because it is a limited partnership. This one is liquid on a quarterly basis. Tell us you want out, at the end of this quarter, well we'll take you out. So it's liquid on a quarterly basis.

JIM GEORGE: George, I believe I missed it, but how much of our ... on a percentage basis do we have in that now?

GEORGE PETERSON: You put 3 million in and currently you're at 3.64 million.

JOHN CRIPE: We need somewhere around a half a million more. And when we originally voted as a group, we were talking about this as an alternative investment, but it's styled more like a mid cap.

GEORGE PETERSON: Well, what we do on this one, we go back to morning star. It allows us to put those 20 stocks by how much is in each stock and then it does that style box for us. So that style box is true as of right now.

MARK WESTPHALEN: And putting up to 4 million dollars into that, it won't ... put us in violation of the investment policy statement for alternatives.

JOHN CRIPE: No, when you voted last month, actually, you voted to modify that investment policy

GEORGE PETERSON: Okay. Small cap value. Again, this one we were talking about, this one we had to work on the hardest to try and get it in the box that we wanted. You don't have anything in there now. You have had been in the Vanguard Small Index, which is basically a blend. We're suggesting 4 different funds here. AEGIS Value, Royce Special Equity, Heartland Value, Boston Partner Small Cap II Institutional. AEGIS Value, that manager I talked to today ... because I called for information and he called me back, that name is Greek for ... strength, I think it is. So I went and I said, "What in the world is that? An acronym? And how do you pronounce it?" But they're the truest of the small value. I talked to the manager about this drift and so on and he said, again, "we're really looking for small value, but when we buy them, they're going to drift some."

JOHN CRIPE: Could you go back to that slide before?

GEORGE PETERSON: Sure.

JOHN CRIPE: The reason that you're allocating 37.5% and 30 and 17 and 15 is to get the style toward small cap value. So if you said, "Let's put 25 in each," that doesn't get you ....

GEORGE PETERSON: I'm going to show you. I think the next slide. Here it is, John. Here's how these four are, but by putting the 4 together in the percentages we said, we come up with this, and we think that's about as close as we're going to get to getting in the small value. The top 50 holdings of the securities, there's no more than 2 funds that own any one stock. We thought that was kind of important. We do a large stock overlap report, and in the top 50 only, in a few cases, 2 of the different funds owned them, and we thought that was pretty good diversification. Aegis Value, it's about 315 million in size. Again, I talked to the manager that runs this and he said that it would not be a problem bringing in 10 million dollars, from his standpoint. Here are their returns. They've just got an excellent record. Expense ratio 1.50. No 12b-1. Here is the rating. Royce Special Equities, that's a 487 million dollar fund. Again, you can look at their returns and their rank. They're at 120 versus 124 average. No 12b-1. Heartland Value, about 1.46. This is a larger fund. A good record. Again, you can see how they've lined up and they do go out 15 years. They do pay a 12b-1b. Point two five. Boston Partners, this one I just happened to call them ... whatever the day was, Monday, and to talk to them about their fund, and they said they closed it on the 29th of August. And I said, "No, no, we're going to present it," and so on. Well, they huddled back there and said that they would let you in. So that, no commitments to go in, but they will, they will let you in, and they love to have you - they have a lot of smaller investors. They'd love one that would put 3 or 4 million in as one client. And they said it wouldn't be a problem, but they were just getting too large. The kind of year some of these are having, that were bringing in new money, all of a sudden their fund is 33% bigger than it was at the beginning of the year if they didn't bring in new money, and so they just get larger than they think they can handle. They have a 1.55% management fee, and here again you can see how they rank. Small cap growth, 3%, about $4.16 million. Again, I talked about that index that you're in now which is a billion. This one stays pretty true to the growth. I figure at least half of this would be in your growth, so that's about the best we could find in a growth. Here are their returns. They have an average of 1.35. They include a 12b-1, but they say they won't pay us, and that's yet to be determined. I mean, if you say you want to be in here, and you're going to talk about 12b-1's later, but we're going to share those with you. We absolutely didn't pick any funds because they had 12b-1 or didn't have 12b-1. We didn't know until yesterday when I did a kind of a synopsis of how many were 12b-1's. Anyway, it's a great fund. A very, very good fund. Foreign stock, approved allocation at 5%, approximate amount is $6.93 million. You're pretty heavy in there right now, so we'd be actually taking about that much money out of foreign stock. This is the American Funds Euro-Pacific, that's where you are now. It's a 23 billion dollar fund. We just think American Funds is going to do better over time in foreign. They've got a great history there. All the foreign funds have had problems the last several years, but for a foreign fund, we think this is an excellent fund. This is just a recap of the domestic side of the stocks portfolio. How we're recommending investing in the different boxes. This is if we take all of those and pump them into the system. This is what we'd look like. If we aggregate all of those, this is the way we would look. This is what we really have recommended. So if you go up there and take half the blend and put it over to value, that's about 26%. We somewhat close. A little high on the growth. If we take that whole, just the domestic again, and look at it, this is how that would have performed over 3 year, 5 year, et cetera. An expense ratio on that whole thing would be 1.09. Here's the other ones we recommended, without going into more detail, convertible bonds, Calamos, foreign bonds, Pimco, tips, Pimco, real estate, these three. Any questions, comments?

GREG SORENSEN: What are you talking about when you talk about a 1.09 percent?

GEORGE PETERSON: That's the total it costs to manage those funds. I can't say that you don't pay that, because basically do. You don't write out a check, it comes out of your returns, and that's to pay the management, it's to pay the accountants to do the audits, it's all expenses to print the prospectus, all the costs of running that fund. All the returns that we're talking about are net of that. In other words, those are already out and these are your returns after all expenses.

MAX CALLAN: That is the expense ratio for only the stock funds. It didn't have the real estate and bond funds....

GREG SORENSEN: So who pays for you?

GEORGE PETERSON: 12b-1s, and I think you're going to discuss that, without us.

PAUL LUTOMSKI: Okay. Well, that concludes Smith Hayes' presentation then. Does the committee - we would like you to talk about adopting their recommendations.

AARON DRAKE: You bet. Thanks for putting that together as quickly as you did.

JOHN CRIPE: If you want to do that while they are tearing down, maybe if there are people who have questions or anything else that might come up. Before they go.

AARON DRAKE: All right. Start the discussion, then.

JOHN CRIPE: Do you have any discussion, or ....? Motion, or ....?

AARON DRAKE: Yes, yes. That's what I just said. Is there any discussion?

MARK WESTPHALEN: One of the last graphs indicated an overall weighting in the small cap area of about almost 50%. Was that because you're putting all the funds together and that's just the way the weighting comes out? That seems a little high to me.

PAUL LUTOMSKI: Well, that was what was originally approved at the last meeting.

JOHN CRIPE: We had 47.6, isn't it?

PAUL LUTOMSKI: That's not a portion of the entire fund, that's as of a portion of the equities.

MARK WESTPHALEN: No. Yes, right.

PAUL LUTOMSKI: Yes, which if you take the blend, it gets it back up to almost 30%, because we figure a blend is probably some growth and some value, so you get a little closer to the original recommended target. I think, Max, in your presentation last month on small cap growth, you said that when you were looking at things over time with the Zephyr system, small cap value consistently was the highest returning of all the categories.

MAX CALLAN: Right. Right.

PAUL LUTOMSKI: And that's why the system then used logic to pick it as a large percentage of our investment.

JOHN CRIPE: Yes, you have 2 pieces. The first piece was determining what our asset allocation would to each category, and then if you went with those percentages, and you bought in similar to that percentage, what would your estimated long term return be. What was that? 8.59% or something like that. The overall expected 10 year return, and we had a 60-something percent chance of doing that. So the first piece was that you voted on an allocation based on going that direction, and then the second part is the investments that they're asking you to make are weighted toward trying to get to the allocation. We are certainly prepared to move forward and make those sales and purchases. You know, some we can't make until spring. The one that real estate.

PAUL LUTOMSKI: I can tell them we will commit 4 million dollars and then when they find a property that they think is a good one to buy they'll call us and all the other people, capital call, and then they'll collect our money and buy the property and put us in the fund. That's standard procedure, really, for real estate funds. They're not in the money market management business, they don't want to hold your 4 million bucks, they'd rather you had it, and then they'll call you when they need it.

MAX CALLAN: Any other questions for us before ... we go?

AARON DRAKE: Oh, I think you can go. That's fine. Thanks.

(Chorus of thanks)

AARON DRAKE: Any concerns in any area? I know this is really where we'd wanted to head, that's why we voted for it. This is the actual investment pieces. But is there any one component of the whole that you have concerns about? Where I guess we'd look at a line item or some type of addendum towards ....

JOHN CRIPE: The safety net is, at least from our perspective, is that if you, as we go forward to make the purchases in September, October, November, you get a recheck on your position in January. I mean, right away you get an opportunity to look how the allocation was made and how closely we were able to get to the percentages. We're kind of expecting them to come up with the same kind of scenario in January. Here's what we did, here's what we bought, you know, here's how it's functioning. This one's just like we thought it would be, or perhaps we should put this one on a watch for the next 6 months. You know. We kind of expect them to give us on-going guidance with regard to it. So, although you're making a long-term investment on the whole asset you have a chance to review twice a year.

JIM GEORGE: But only re-balancing in June.

JOHN CRIPE: Yes, you're only re-balancing once a year. You'll stay in the style.

JIM GEORGE: Even if in January, if something would look obvious that they were going down the wrong ....?

JOHN CRIPE: Well, if something looked obvious with a particular fund, then you might look at changing the fund, but you're not re-balancing the percentages at that stage.

GREG SORENSEN: But you have the ability to change any of these funds, with the exception of real estate, on a daily basis, if you wanted to.

JOHN CRIPE: Oh, yes. Anytime.

GREG SORENSEN: So if the market all of a sudden something really bad happens ....

JOHN CRIPE: Well, the theory though is that you're buying so much diversification that if one is going to go down, that whole sector might be going down.

GREG SORENSEN: Well, that seemed to be the common theme through there. In 2002 every fund that we saw had a negative income in 2002, which apparently was the real bad year, I guess.

JOHN CRIPE: Yes.

MICHAEL DONNELLY: Just a couple comments. I think they did an excellent job of screening all the funds and the assets, just outstanding. They met our asset allocation, which we approved. Just to follow up on some of the conversation regarding what happens if a fund does retreat or fall out of bed, I think it would be in our best interest to adopt ... as part of our policy, watch list guidelines and also fund removal guidelines, as part of our investing policy. I'm sure Mark has programs like that. We at Wells Fargo we have one on watch listing funds and removal of funds. That way we're not caught in a situation where the funds are not performing up to our guidelines and we can remove them without getting together as a committee and formally accepting that rule. I mean, I'll just submit that. I think it's a good idea. I think what we've got here is excellent as a starting place, but in the future there may be a fund or an asset class that we have to move on. The other observation, did we at our last meeting approve, changing the investment policy or the approved allocation annually?

PAUL LUTOMSKI: You can change it whenever the committee meets, and votes to change it.

MICHAEL DONNELLY: Okay. So we didn't vote a certain time period. We didn't say annually or anything.

JOHN CRIPE: No.

PAUL LUTOMSKI: No, I don't think so.

MICHAEL DONNELLY: Okay.

GREG SORENSEN: So we can change it to more than 50%?

MICHAEL DONNELLY: Well, we can change it, for instance if small cap value is an area that is slightly underperforming or something we could change it at that time.

GREG SORENSEN: To a large cap.

MICHAEL DONNELLY: Not that we would. .

JOHN CRIPE: What you're looking at is an asset allocation model for the long term that they prepared with trying to make 8%. But at some time, if that asset allocation isn't working and you produce a new model that says maybe it ought to be 40% one way or 60%, then you have a chance to look at it and say, "Yes, we ought to do it."

PAUL LUTOMSKI: Yes. That's the January review. They'll go over the asset allocation that we talked about last month and say, "Here's where we think the asset allocation should be. Here's the individual stocks that you have, or individual securities to implement that," so you can change the asset allocation and the individual securities then and then the June thing is just re-balancing what we already have.

JOHN CRIPE: Yes, this January you're really going to be kind of stuck with what you have on your table.

GREG SORENSEN: Right, but say a year from January, you'd come up and it looks like everything is out-performing the 8%. Say everything's doing 15%, like some of these funds were doing, so at that point in time, you decide to change your asset allocation from 50% equities to 60% equities, then at that point in time, if we had something along the lines that you're talking about, where the market continues to go up, but all of a sudden something happens and you have to get out of the fund, you can, you have something in place to actually do that, and then you're just sitting on cash as opposed to sitting on a stock that's going down. As long as we have that ability to do that.

MICHAEL DONNELLY: I think really what we have is two issues. The asset allocation, which is what you were touching upon, to meet our 8% objective, is one issue. And then the individual funds that support that asset allocation is the second issue. I think the individual funds are the ones we look at watch listing procedures and fund removal procedures. And fund replacement procedures. The asset allocation may be once a year at the annual meeting we look at that and we say, "Does that still meet our goals? Are we still solid there?" You know, to achieve our 8% return. And if it's not meeting our goals, then as a group we need to take action on that.

JOHN CRIPE: Yes, you really don't want to chase returns. You want to build a balance so you get long-term returns, and your re-balancing is selling your winners and buying your losers, if you believe your asset allocation is correct. So you are able to look at asset allocation, but you probably aren't going to do major changing every year, you're probably just going to fine tune where you're at. Lots of plans were 55 and 60% either way, and they didn't have the adequate balance. I think all these categories gives you adequate balance. Real estate, convertibles, CMO's, bond fund, all of it gives you a pretty good balance, at least based on their model that they produced for us this summer.

MARK WESTPHALEN: Now, the easiest thing is what we're doing right now. Picking the funds. That is by far the easiest thing to do. I'm sure we all know, if we think about it we'll know, that we are going to have a fund that is not going to perform at any point in time, because not all sectors perform they way you want them to perform. That's why we do the asset allocation, so we are going to have tough discussions as we go down the road. "Is this sector performing? No, it's not." But that's just part of diversification, is that there is going to always be a sector that isn't going to work.

JOHN CRIPE: But you still want them in your assets. I mean you, for long-term you want the asset class, but you may not want that stock, or that mutual fund.

MARK WESTPHALEN: And that's the toughest thing to decide, whether to pull money out of that fund if it's not performing for whatever reason.

AARON DRAKE: Okay. Any motions from the floor? Based on what we talked about.

JIM GEORGE: So, yes, well, what's the proposal? How and when and kind of time schedule? I mean, you going to start now pulling money out of things and reallocating?

PAUL LUTOMSKI: Yes. That's what we said last time. We wanted to get together September 11th and decide on the securities and then probably within a month we can have, have all this stuff purchased, with the exception of the one REIT.

JIM GEORGE: So you'll be pulling money out of Washington Mutual, CMO's?

PAUL LUTOMSKI: Yes.

JIM GEORGE: Because that's excess?

JOHN CRIPE: Right.

AARON DRAKE: Is there anything right now ... that you have itemized on the auction block that would be detrimental to sell?

PAUL LUTOMSKI: No, I don't think so. What we would sell would be some of the Euro-Pacific Fund. He showed you that we were $7 million over. And then all the other funds in our equity group, we would sell and reshuffle. But the Euro-Pacific would go from a foreign fund to a domestic. The only other thing that we would need to sell would be some of the CMO's, because we're increasing our equity allocation. And the CMO's that we have, are under one year duration, so they're real short.

JOHN CRIPE: We reorganized them a year or two ago to get away from the 5 or 6 year duration, down to the one or two year durations because of what we thought would be happening in the market, did happen, so.

PAUL LUTOMSKI: When interest rates go up you don't want to have a bunch of long duration bonds out there because then your market value would go down.

JOHN CRIPE: For those folks in the '70's, if you remember, when this plan was being managed by Finance, I think the average yield was 3% on all the bonds they were holding as bonds were maturing or you could buy new bonds at 6 or 7%, you couldn't sell what you owned. I mean we moved in advance, thinking that we didn't want to be in that kind of a position on our holdings, so.

PAUL LUTOMSKI: We've been shifting our assets, number one, to protect ourselves against increasing interest rates, and number two in anticipation of something like this. We were going to do this in May, and it got postponed a little bit. So we don't really - we don't have anything to sell that would hurt us.

JIM GEORGE: What about corporate bonds, t-bills, treasuries?

PAUL LUTOMSKI: We have a corporate bond fund, Calvert Income Fund, and we're keeping the whole thing.

JOHN CRIPE: We're pretty close to the TIPS allocation. We have a little money to buy in tips.

PAUL LUTOMSKI: Yes, we have two and a half million in TIPS, and they're recommending 6 million so we put another three and a half and we actually have two and a half million in the money market.

JG Do you have the plan on where you want to start? Which ones you want to start with, or ....?

PAUL LUTOMSKI: We would sell all our Vanguard Funds. We'd sell some of the Euro-Pacific, and some Washington Mutual, collect cash and wire transfer for purchases.

JOHN CRIPE: It'll take us a little time to accomplish this, but not a long time. Our intention isn't to sell something that ... if we waited a month, we'd be better off, so we'll watch it, but you know as you voted last month to move the assets in this direction as quickly as possible, we'll do that, September and October. And hopefully the only thing we'll have left will be the real estate.

PAUL LUTOMSKI: We should be all done by November.

JOHN CRIPE: And we'll talk to Aaron about restructuring the meetings, because there's no relevance to us meeting the first Thursday in November. We may change it to January, and start a new quarterly meeting system, based on that meeting, so. We'll be moving forward by then.

MARK WESTPHALEN: The money that you're going to put aside for the real estate, what is that? 4 million, let's say.

PAUL LUTOMSKI: About 9, almost 10.

MARK WESTPHALEN: That you can't get into until what? February, April?

JOHN CRIPE: Oh, well, we'll just have 4 million available.

MARK WESTPHALEN: And so where are you going to put that?

JOHN CRIPE: We'll probably leave it.

PAUL LUTOMSKI: We'll leave it in CMOs.

JOHN CRIPE: Sell it when we get the capital call.

PAUL LUTOMSKI: They're bringing in coupon rates of 4% to 6%.

MARK WESTPHALEN: I just wonder if it's easier for market potential, and I know it's a timing game, but instead of leaving it in CMO's, leave that money maybe in an index fund or something like that where we could get a potentially better return than 4.5%.

PAUL LUTOMSKI: Well, we are prohibited from being timers.

JOHN CRIPE: Traders.

MARK WESTPHALEN: No, no, no. I'm not saying put it in somewhere, but I mean ....

JOHN CRIPE: You mean, sell the CMO now to buy equities and Vanguard later to buy RREEF?

MARK WESTPHALEN: Yes. I wouldn't - I wouldn't overweight a .... I wouldn't overweight a CMO.

JOHN CRIPE: So we leave 4 million in the ... in the Vanguard, and we sell the CMO. Because the Vanguard has the potential of earning more for this short term period.

PAUL LUTOMSKI: Well, are you guys going to guarantee that?

JOHN CRIPE: No, I'm just. I'm just trying to understand.

JIM GEORGE: Well, you got a choice to make.

PAUL LUTOMSKI: Yes, I know.

JOHN CRIPE: Well, we could look at that and see which one is better, more advantageous.

JIM GEORGE: There's no guarantee away either way.

PAUL LUTOMSKI: Well, with our CMO's, they're not going to move very much in market value. We know that, no matter what.

JOHN CRIPE: And they're all better than our money market.

MICHAEL DONNELLY: Well, technically we should leave it in the CMO's because they're closer to the real estate asset class than the stocks.

PAUL LUTOMSKI: That's a good way to approach it.

MICHAEL DONNELLY: I mean we should stay as close as possible to our asset allocation.

MARK WESTPHALEN: That's a good point.

JOHN CRIPE: I think that's very smart. We really do have to manage to sales and purchases. You give us direction to do it, we'll move that way, but we won't harm the pension.

MARK WESTPHALEN: I move to approve the recommendations and go ahead with the purchases.

JIM GEORGE: I'll second.

AARON DRAKE: Second.

GREG SORENSEN: How much are we paying Smith Hayes?

JOHN CRIPE: Zero.

GREG SORENSEN: We don't pay them anything?

JOHN CRIPE: We don’t pay them anything at this point. Although we’ll talk about the 12b-1 fees here in a second.

MARK WESTPHALEN: The 12b-1 fees that they’re earning right now.

JOHN CRIPE: Yes. We had an agreement for a rebate. We need to redo that agreement, I think. Because they’re taking on a bigger role, with regard to what they’re doing now compared to when we did the last agreement.

JOHN CRIPE: They’ve done a lot in the last 6 months, so we should revisit that, and see where we stand. We also need to make sure how much is on the table for us.

AARON DRAKE: All right.

PAUL LUTOMSKI: Okay, we had a first and second.

AARON DRAKE: Okay. Since we’ve already had our discussion, unless there’s any further discussion, move for a vote. All in favor, say “Aye.”

(Chorus of “Aye”s)

AARON DRAKE: All “Nay”s? Seeing none, motion passes.

PAUL LUTOMSKI: Are we done with this special session, then?

AARON DRAKE: We’re adjourned for this special session.